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The Importance of Performance Measurement in Manufacturing Companies in Albania

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ABSTRACT

The aim of this study is to examine the theory and practice of performance measurement methodology by analysing most relevant field studies which have sugested performance measurement methods.

This paper uses case study methodology to evaluate utility and importance of performance measurement in business. Overall performance measurement process will be assessed starting from collection, analysis, processing and reporting data. Unity of analyse will be a company from manufacturing industry.

Both Financial and non-financial approaches are important, but to be able to build up a strategy for a long - term successful business planning, they must be considered in relation with each other. This creates the most comprehensive framework for performance measuring.

To better illustrate this approach, we have studied the performance evaluation system in two manufacturing firms in the industry of fason shoes in Albania. We concluded in the importance of the use of balance scorecard, in regards to this field of growing business in Albania, and accordingly gave our recommendations. The businesses involved in this research were purposely chosen, in order that one of them to represent the firm that punctually exhibit performance measurement framework and the other does not properly exhibit this performance evaluation. Comparative results of them enabled more sustained results and recommendations.

Key words: Performance system evaluation; financial approach; non-financial approach; Balance scorecard.

CHAPTER I: INTRODUCTION

Performance measurement is a very dynamic process that requires a valuation between current conditions and desired conditions. The gap between current state and desired one is the basic purpose of the company in the period ahead. They are just goals, which give the company direction to follow in order to reach the desired level.

Through this study, it is important to show if the company is achieving its goals/objective or not, accordingly to the company vision and mission. The easiest way to switch from scopes to the measurements is through qualitative measurement. Each performance measure should be designed in a more general context. In most cases the process starts with creating a strategic plan. But does this apply to Albania? And why should implement Balance Scorecard.

This project will be based on two case studies of a company in Albania, focusing on the use of Balance Scorecard in our country. These companies both operate in the shoes manufacturing sector. After giving a look on the theoretical performance measurement we will evaluate the indicators presented by the theory in the case of the Albanian company.

The traditional way of performance evaluation is through the financial indicators. Modern theories of management and control suggest that financial measurements are insufficient in decision-making and control system. Financial variables of performance measurement are focused on historical data and gains in short term periods. Contemporary literature tells us that non-financial measurements of performance and control, as well as methods such as Balance Scorecard or EVA push the companies to focus more on long-term strategies. Companies that rely on these methods have a longer-term view.

According to Jacobsen is required to give a view of reality in Albania, to gain deeper knowledge about the problems that exist and to try to understand young phenomena. The crucial questions that analyze the performance are *What, How* and *Why*, descriptive and explanatory. For this some questions may help us:

1. *What are the main **benefits** arising from the use of non-financial and financial measurements of performance?*
2. *How is measured the performance in Albanian companies **nowadays**? Which are the most useful indicators, non-financial or financial?*

3. *Is it necessary for Albanian companies to use the **Balance Scorecard** and how is performance measurements associated with the respective strategies of companies?*

Since data for Albanian companies are difficult to gather, and there are few studies in the field of performance measurement in our country, this project will be focused on two manufacturing companies. From these companies, one uses measurement of performance by financial indicators and non-financial, and other does not uses both measures of performance measurement. By comparing results from both companies, we will assess what are the problems with Albanian companies are faced and how competitive they are in international markets. We have chosen two of biggest companies in this field, to better represent the situation.

The liberalization and globalization of the economy brought a number of changes in competitiveness, product and cost structure of the companies.

To survive and to succeed companies must establish the company's strategies, establish goals and monitor / control their condition to achieve the objectives. When a company reaches the size as big as that one single manager cannot control its current state and behaviour of the company then the company should use performance metrics and control systems.

It is necessary to know why performance measurement of an organization is important and vital for the organization. The purpose of performance measurement is performed not only to measure the progress of the business, but also to improve its performance continuously. The ultimate goal of this measure is to improve the organisation performance.

And to inform the organization about what is going well and what is not. To be more and more competitive in the market, it is necessary for companies to have a high performance and always bring innovation and quality in their production.

Measuring performance indicates that the sector is operating at full capacity and that which of the sectors is experiencing difficulties in its activities to achieve the main goal of the entity.

To measure the performance, we can distinguish two ways. The first one is the most frequently used by financial indicators. Financial methods are very useful especially from stakeholders outside the company, but for shareholders and high level managers these ways are not enough. Corporate development and delegation of tasks have become necessary to further develop methods of measuring performance.

For many years it has been observed that financial indicators alone do not provide an accurate assessment of the performance of a department, a business unit, or a society. These indicators are inadequate to take strategic decisions because they are not able to provide comparability between management decisions and actions taking place on the ground. So to increase as much as the degree of accuracy of performance measurement it is necessary to use the non-financial indicators.

Performance measurement can be done using only financial indicators, using only non-financial-indicators or financial indicators combined with those non-financial. The selection of the appropriate method and indicators depends on several factors, among which we can mention, the cost of implementing the system of performance measurement, performance measurement frequency, complexity of analyzing measurable performance indicators, etc.

Performance metrics are classified into two groups: (1) indicators that measure results (total output, economic performance, etc.) and (2) indicators that measure outcome causes (quality, flexibility, etc.). The most recommended methods of performance measurement are those that incorporate both methods of measuring. Frameworks that incorporate and combine indicators from two groups have made possible the developing of developed methods for measuring the performance. The most famous of them are:

- Balanced Scorecard
- Cost based on management activities and ABC-M
- Economic Value Added (EVA)
- Quality Management
- Customer Value Analysis
- Performance Prism

All the above methods have the same aim: to provide a comprehensive framework for performance measurement that incorporates as much as possible performance dimensions, in order to better contribute in fulfilling business main visions and overall objectives.

As is argued further in this research, Balance Scorecard as strategic performance and strategy measurement is supposed to be one of the most important metrics of performance in future. The role of management and business culture in the coming years it is important in the successful implementation of the Balance Scorecard, adapting of it and to measure the performance of the company. Albanian companies as quickly they adapt to modern ways of management and control so soon they will be competitive and successful, not only in Albania.

Through this project we will try to insist on the importance of performance measurement for every company.

CHAPTER II: A THEORETICAL OVERVIEW OF PERFORMANCE MEASUREMENT METHODS

2.1. ABC METHOD ANDABB (ACTIVITY BASED BUDGET)

It is Krumwiede (1998) the author who considers the adoption of ABC method as an imperative in order to addresses the organisation needs and purposes. In its beginnings, this method was evaluated as a component of organisational natural evolution and was related with innovation and technological progress. In later developments the method was broaden to incorporate more performance dimensions.

As the term indicates, the adoption of ABC means to implement cost evaluation based in activity, and not like in traditional form of cost evaluating where cost were proportionally distributed to different activities.

The main issue when implementing ABC method is that there are divergences in evaluating its utility. Some scholars ((Armstrong, 2002; Arnaboldi & Lapsley, 2003) argue that in some circumstances, the ABC's adaptation most important feature is that it generates improved internal processes, but there are other authors (Babad & Balachandran, 1993; Belkaoui, 1981) that indicate strong reasons to believe that ABC enables a more successful response to external organisational forces.

Companies that use ABC are able to:

- Identify customers, the most profitable products and segments;
- Determine the main rentable indicators of financial activity;
- Forecast costs, profits and resources about changing the volume of production;
- Identify reasons for low financial performance;
- Costs of training managers to improve their skills.

The organizations that integrate the ABC management of performance have concluded that ABC is an important source in measuring performance. These measurements are found usually in dimensions of the process of "scoring cards" where the activity cost ensures sufficient scores to plan activity objectives and achieve performance results.

In the "South Dakota Department of Transportation", 25% of performance measurement has derived from ABC model. Metrics of ABC are found also in the dimension on customer “score card” which is necessary in order to evaluate profitability targets of customer. These measurements would be impossible to be used in the absence of ABC. ABC supports budget preparation and long-term plans that are logically derived from integration with the strategic objectives and the relationship between achieving objectives and resource intensity. ABC models have predictive capabilities and combine forecast with other analytical techniques in order to support the development of different scenarios.

ABC is a broad method that can be used for a number of purposes. For example in an insurance company, ABC was used for performance optimization processes. Referring to a certain level of productivity has enabled them to forecast the volume of transactions for the period of next budget. Once end his forecast, ABC was used to predict the needed quantity for each type of source to accomplish for the anticipated volume of transactions. The cost of these resources becomes input, in order for financial management to create the budget.

Relying on ABC, companies receive knowledge on profitable activities. ABC measures which of the company's activities is generating incomes, which afford the costs, and helps senior managers to understand which activity is truly creating consumer value. ABC is used by many companies that also use the Balance Scorecard because enables companies to provide more accurate information about performance metrics. Also this method lacks the strategic elements and non-financial, that fulfills the use of BALANCED SCORECARD. Most companies use ABC to recognize their costs and to recognize competitive advantages. It is valid as management accounting tool, but also provides valuable information about the internal process perspective of the BALANCED SCORECARD.

2.2. EVA AND BALANCE SCORECARD IN THE SYSTEM OF PERFORMANCE MEASUREMENT

Ittner & Larcker (1995) in their paper: “Total quality management and the choice of information and reward systems” have stated that one of the most difficult decisions that a management team undertake is planning and implementing a proper framework for performance measuring.

ABC method presented earlier in this thesis has the characteristic that it is related only with internal processes. This is the most cited failure of Managerial Accounting performance measuring indicators (Kaplan & Norton, 1996). This has risen the necessity to develop new performance measures that incorporate and take in account external developments outside the firm.

Ittner & Larcker (1998) to addresses the above shortcoming of Managerial Accounting performance measuring indicators have introduced the so called: “economic value” performance measuring indicators. Economic Value Added (EVA) is defined as an improvement of ownership of income method and it simply measures performance of each action of manager. When profits exceed the costs than performance is positive and capital is increased and when costs exceed the profits performance is negative and ownership capital is damaged.

Beside EVA, there exist Balanced Scorecard (BSC- Balanced Scorecards), which is a measurement framework performance developed by Kaplan & Norton (1992). Its represent today one of the most commonly used tools in measuring performance.

Later versions of BSC are those developed by Saull (2000) and Van Grembergen & De Haes (2005). Based on an earlier version of Saull, BSC has developed the concept of marking cards of balanced governance. According latest version of BSC there are four important concepts: (1) contribution to the organization (finance), (2) beneficiaries (customers), (3) operational excellence (internal processes) and (4) directions in the future (learning and growth).

Figure 1 Balance Scorecard according (Kaplan & Norton, 1996)

As indicated in the above figure, according Kaplan and Norton, a business unit performance was assessed by four perspectives. What was notable in their work can be described with three important complexions: ***Structure***, ***Implementation*** and ***Use***.

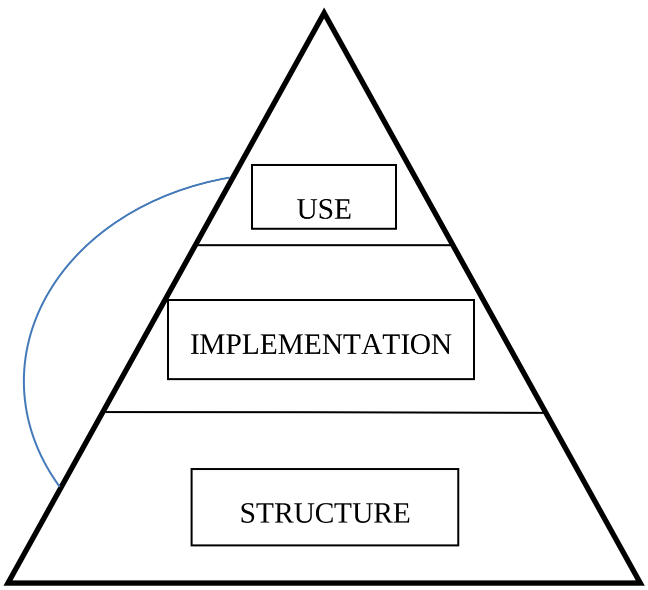


Figure 2 Pyramid of aspects of a Balance Scorecard

2.2.1. Structure

According BSC a proper performance measurement framework should accomplish three objectives: (1) Measure performance in terms of Strategy, (2) Offer balance among the measures, and (3) ensures connection between different measures.

2.2.1. a. Measures of performance in terms of Strategy

If we use strategy as the main indicator of level of success of a system, then a proper framework of performance measures is imperative. One of the main characteristics of balance scorecard is connecting its dimensions and measures with the strategy of the company. As Kaplan and Norton said, the most universal and comprehensive performance indicator is Balanced Scorecard. If we see that the measures are not obtained by the company strategy, means that the performance system should not be called a balance scorecard.

2.2.1. b. Balance among the measures

This is the second characteristic that the structure of a balance scorecard should have. In general, the performance measurement indicators are designed to emphasis financial measures. But according some authors, focusing only on financial metrics for performance measurements, doesn't help the company for long term decisions because it promotes only short term decisions Malina & Selto (2001). Despite that financial and non-financial measures are important to evaluate the level of success in strategy execution, Nanni etal. (1992) stated that non-financial indicators are more important for strategic orientation of firm. This means that non-financial indicators are more powerfully connected with long term period of time compared with financial indicators.

They also can help on finding out why the strategy implementation may have failed (in case of failure). There are also a lot of researches that suggests that a considerable number of companies are integrating financial metrics with non-financial indicators and using them for evaluative or rewarding purposes (Behn & Riley1999, Banker et al. 2000, Kalagnanam 2002).

An organization or company scorecard should consist of measures throughout four perspectives. This is a suggestion of Kaplan and Norton (1996, 2001). These perspectives are:

1. Learning and Growth: in order to learn and growth we must evaluate “How should ours business continually learn and improve, so it can accomplish the main vision?”
2. Internal Business Process: with this perspective we aim to answer the question “At which process I should excel in order to satisfy my customer?”
3. Customer: with this perspective we answer the question “How should I look at my customers in order to achieve my vision?” This perspective reminds the managers that the customer is the source of revenue and has to be always satisfied.
4. Financial: with this perspective we should addresses “How will we reward our shareholders we succeed?”

Financial and customer perspectives attempt to focus the observation on the processes or activities that brings the customer and financial goals achievements.

All these four perspectives help the organization on focusing on what is their goal and how do they plan to achieve it. We have to mention also that these perspectives are not obligatory activities for companies. They mostly serve as guidelines for the company.

Norton and Kaplan (1996) observed that some companies are using five perspectives, including also Human resource perspective. But some other studies (Rucci et al. 1998; Speckbacher et al. 2003) showed that there are companies that are using only three perspectives for their performance measurement. Kaplan and Norton (1996, 2001) proposed a multi-dimensional approach of the balance scorecard and this is only one of its aspects. They also suggested a balance scorecard which incorporates a total spectrum of indicators form all the cited perspectives.

2.2.2 Implementation

Implementation is the second sheet of the pyramid but again even this process starts at the moment that the balance scorecard project starts. In order to create the exact needed metrics and buy-in for implementing successfully the project, it is needed to have very accurate input from every level of the company. Kaplan and Norton (1996) discovered that without implementation and support of senior management, the balance scorecard wouldn’t succeed. Also Kaplan and

Norton (1996) mentioned that every company should communicate scorecard approach as an important component of company overall strategic orientation.

In this way, the company can measure also the employee knowledge and understanding of the company strategy and at the same time, the company can verify if the campaign was successful.

2.2.3. Use

As the last function of the balance scorecard, use is at the top of the pyramid. This function has as part of it some activities such as:

2.2.3. a. Planning and Control

Although the Balance Scorecard can’t function only as a mean to control, studies have seen that it is a very good management control tool. In Malina & Selto study, the managers saw that the information they collected from the Balance scorecard made possible to reactions from them that positively affected stakeholder policy of the business. The Balanced scorecard has the management control ability so it orients towards strategy setting that brings positive output.

If budgeting which is part of planning and control function is connected to the Balanced scorecard, means that the organization is using Balanced scorecard as a main management tool.

2.2.3. b. Compensation

As Kaplan and Norton (1996) states, compensation is the final step of the Balanced Scorecard implementation. Compensation is the instrument that compensates efforts to achieve objectives and to reward performance. This is also showing that the management of the company is confident in their scorecard. For all above mentioned reasons, linking compensation to the scorecard is placed at the top of the pyramid.

CHAPTER III: NECCESITY OF BALANCE SCORECARD METRICS

Performance measurement has been dominant in most organizations, but the literature and research in the field of management accounting and control show that non-financial metrics should affect strongly the decision. (Kaplan and Norton, 2001, Chapman 2005 Merchant and Stede 2007).

Today BALANCED SCORECARD is more practiced methods of measuring performance. This balance doesn't focuses only on the balance of financial income but also in employees (human resources) strength, which helps in earning revenue by insuring a better performance of employees on long-term periods.

Balances Scorecard Implementation is a process where strategies of organization are evaluated through key performance indicators. (Kaplan and Norton, 1996).

If we refer back to the authors (Kaplan & Norton, 2001) in their studies, it is shown that only 5% of employees can understand the strategy of the company where they work, only 40% of companies base their budget on the strategy and only 15% of executives spend an hour a month to discuss the company's strategy. On these facts it is based the growth of popularity of the Balance Scorecard.

Fernandes in 2006 concluded that the success of adaptation of Balance Scorecard depends on the size of the company. However, there are other arguments, which indicate that the use of BALANCED SCORECARD is equally necessary even in small companies. It creates a strong bond between the performance measurement and control work with customers, internal business processes, learning and growth perspective, and investigates their impact on the financial indicators.

The balance scorecard relies on two parts that are: the main one and the traditional one, ensuring a better balance for the company. Main indicators include non-financial indicators such as customer satisfaction, development of new products, timely disbursement of products, development of competencies of employees, etc. Traditional indicators are financial indicators focusing on: revenue growth and profitability of the company. This metric equates the coefficients of 4 indicators: financial, customer, innovation and internal process indicators, the lastone has the greater emphasis as a result of the importance that it has in the performance of the company. BALANCED SCORECARD has undergone a process evolution and improvement from a simple performance measurement in 1990-1996, in performance management in 1996-2001, becoming the best practice of strategic management by 2001 to the present days. The benefits that a firm may have with the implementation of the Balance Scorecard are:

- Adaptation of strategies by making it easier the implementation of operational processes and goals of the company;
- Alignment with a single coherent strategy;
- Development of daily strategies for all employees in their daily work, from production employees and senior managers;
- Improving the strategies continuously;
- Establishment of effective leaders.

As above mentioned, balance scorecard is the most common way to measure performance today, which sees the company into four perspectives:

3.1. Customer perspective

Customer perspective includes data directly connected with customers as key stakeholders, such as: customer satisfaction, customer retention and new customer acquisition, etc. These data can help the manager to create a strategy to target customers and market, to generate income in a subsequent period, and to keep current customers. In addition, the company can provide data for dissatisfied customers, whether they have found a replacement or not.

One of the most important questions an organisation must do is*: "How do customers see us?"*

In today industry, it is imperative for industries to focus on customers as their main priority. The balanced scorecard makes possible to link overall company objectives with specific measures in order to emphasis what is important for company customers.

One of the most cited example is it the one mentioned in Kaplan and Norton (1996, 2001) which state that four most important concern areas for a customer are: (1) time, (2) quality, (3) cost, and (4) performance. It is important for each of these areas to have a set of standards and goals to be accomplished. Therefore they all required measures and indicators, which makes imperative data gathering.

Most used indicators to evaluate the customer perspective developed so far, from different authors based to Kaplan theory are as following:

3.1.a. Customer Perspective Indicators

1. **Life Cycle KPIs**

- *Conversion Rate:* Helps determine the success of a particular customer interaction by tracking the percentage of interactions that result in a sale.

$$\text{Conversion Rate} = \frac{\text{Interactions with Completed Transactions}}{\text{Total Sales Interactions}}$$

- Cross-Selling Rate: Measures a brand's ability to sell a consumer a product related to the one they have purchased, thereby expanding wallet share. This rate can be measured in additional products sold or additional revenue gained from these products
- Customer Churn Rate: Indicates the percentage of customers that either fail to make a repeat purchase or discontinue their service during a given period.

$$\text{Customer Churn Rate} = \frac{\text{Number of Customers Lost in a Given Period}}{\text{Number of Customers at the Start of the Period}}$$

- Customer Lifetime Value: The net profit a company anticipates gaining from a consumer over the entire length of the buying relationship. This can help to determine the costs and benefits of acquisition efforts.
- Customer Lifetime Value / Customer Acquisition Cost: This indicator should ideally be greater than one, as a customer is not profitable if the cost to acquire is greater than the profit they will bring to a company. The formula is as indicated below.

$$\frac{\text{Net Expected Lifetime Profit From the Customer}}{\text{Cost to Acquire the Customer}}$$

- Customer Profitability Score: Determines which customers make the most and least substantial contributions to profit. Companies can use this to determine where they will allocate spending and investments.
- Customer Retention Rate: Measures the portion of consumers who remain customers from the beginning to the end of a reporting period.

$$\text{Customer Retention Rate} = \frac{\text{Customers Lost in a Given Period}}{\text{Number of Customers at the Start of a Period}}$$

- Early Repeat Rate: Measures the portion of consumers who make a second purchase within a set amount of time after their first purchase. This could be a good indicator of how well companies are converting their one-time buyers into more loyal customers. Formula: (Number of Customers Who Make a Second Purchase Within X Amount of Time)/(Total Customers Who Made a Purchase During this Time) = (Early Repeat Rate)
- Lifecycle Distribution Status: Measures where customers fall within the various stages of the customer life cycle. With this measurement, companies can evaluate how many customers they have in each particular stage and the rate at which they are moving.
- Rate of Adoption: The rate (determined by length of time) at which an innovation is adopted by a given population.
- Renewal Rate: A good indicator of whether clients find a service useful. If this rate is low, companies may need to determine why clients are not renewing the service. Formula: (Clients Who Renew) / (Total Clients Whose Previous Licenses Came to an End) = (Renewal Rate)
- Up-Selling Rate: The rate at which customers are converted from purchasing a product to purchasing a more expensive version from the same product family, which increases wallet share.
- Winback Rate: Tracks the percentage of churned customers who are successfully "won back" into making a purchase during a given period. Formula: (Churned Clients Who Repurchase) / (Churned Clients) = (Winback Rate)
- Referral Conversion Rate: Measures the portion of referral invitations sent that are accepted by their recipients. Formula: (Converted Referrals) / (Total Referral Invitations Sent) = (Referral Conversion Rate)

2. Numbers & Rates KPIs

- Average Number of Referrals Per User: A higher number of referrals per user is likely to lead to more sales, increasing the profitability of each customer. Formula: (Number of Referrals) / (Number of Users) = (Average Number of Referrals per User)
- Bounce Rate: Measures the number of visitors that access a page on a company website and leave before visiting any other pages.
- Click-Through Rate: Monitors how many people click on links in an email. This is a good way to gauge the success of an email campaign and the quality of an email’s content.
- Client Summit Attendance: Counts the number of people who attend a client event. It could be measured as a percentage of a specific attendance target or of the total client base.
- Contact Volume by Channel: Keeps track of the number of support requests by phone and email. This allows the organization to not only compare which method customers prefer, but also to track the number of support requests month-to-month.
- Customer Complaints: Helps companies determine whether innovations are effective in improving the customer experience with their product.

- Direct Traffic: Traffic to a company's website that occurs from visitors typing in the URL directly (i.e. actively seeking it out).
- Indirect Traffic: Measures website traffic that stems from indirect sources, such as clickable email campaigns or referral links
- Number of Reads on Company Blog Articles: Helps companies determine whether visitors are finding their content useful and which content performs better than others.
- Number of Social Media Followers: Indicates the level of customer engagement a brand has.
- Number of Support Requests per Product: Allows a company to determine which products their customers find easier (and harder) to use.
- Open Rate: Tracking the number of opened and unopened emails allows companies to evaluate whether an email campaign strategy is successful or not.
- Rank on Search Engines:Can indicate whether a search engine optimization (SEO) process is effective.
- Rate of Referrals:Can help illustrate customers' level of satisfaction with a product or service. Formula: (Number of Referrals in Period) / (Units of Time in Period) = (Rate of Referrals)
- Redemption Rate: Provides companies with vital consumer behavior information. Formula: (Reward Points Redeemed) / (Reward Points Offered) = (Redemption Rate)
- Repeat Customer Rate: Indicates whether a product or service inspires repeat purchases from customers. Formula: (Customers That Have Purchased More Than Once) / (Unique Customers) = (Repeat Customer Rate)
- Search Volume for Brand: Can help companies gauge brand awareness. Determined by the number of times that consumers search a brand using search engines.
- Sessions per Day: Tracks how many times a customer is using a service or product per day.
- Share of Wallet: Measures the portion of a customer's total spending that goes toward the company's products and services
- Visit Frequency: If a visitor makes frequent trips to the company website or location, it demonstrates interest in the product or service, which can provide a company with more consumer insights.
- Number of Customer References: The number of customers that brands can rely on to refer others to a product or service. The more customer references, the better.
- Number of Customers: Allows companies to track the size of their customer base over time.
- Number of Customers per Employee: Indicates the workload per employee and how much bandwidth a company has available for each customer.

$$\text{Number of Customers per Employee} = \frac{\text{Number of Customers}}{\text{Number of Employees Serving Those Customers}}$$

- Number of New Customers: Allows companies to track the growth rate of their customer base.
- Number of New Marketing Leads: Determines how many marketing leads are added in each period, as opposed to the total number of leads. Formula: (Total Leads) - (Leads at the Beginning of Each Period) = (Number of New Marketing Leads)
- Number of New vs. Repeat Site Visits: Allows companies to differentiate their website traffic and generate insights on prospective customers. Formula: ([1] - [Website Visits by New Visitors]) / (Total Website Visits) = (Number of New vs. Repeat Site Visits)
- Time per Website Visit: Can indicate how engaged a visitor was with the website content during their visit.
- Brand Attitude Index: Customers' attitudes about a brand can include how positive or negative the customer feels about the brand, as well as how strongly they feel about their conviction.

3. Satisfaction KPIs

- Comparison of Product with Customer Expectations: The product or service should meet or exceed expectations in order to retain customers.
- Customer Effort Score: The less effort the customer must expend in order to complete their task or goal with your product, the more they will want to use the product.
- Customer Satisfaction Index: Helps gauge a company’s success at meeting customers’ needs.
- Customer Satisfaction with a Particular Feature: Can be used to hone in on customers' opinions of a specific feature of a product.
- Customer Satisfaction with the Buying Process: If a buying process is satisfactory for customers, they may be more likely to remain loyal to the product.
- External Benchmark Survey Ratings: Compares one organization's customer satisfaction with its competitors' customer satisfaction.
- Intention to Repurchase: This is the equivalent of a likelihood to repurchase, and many times this is self-reported in a survey of the customer near the time of the original purchase
- Net Promoter Score: Determines how likely customers are to recommend a brand to others, generally represented on a 1-10 scale. A score that qualifies promoters (usually 9-10) and detractors (under 6) would need to be determined in order to calculate this metric. Formula: (Number of Promoters) - (Number of Detractors) = (Net Promoter Score)
- Percent of Customers Who Are "Very" or "Extremely" Satisfied: Determining this metric opens up an opportunity for further surveying into what makes these particular happy customers so satisfied. Formula: (Customers Who Consider Themselves "Very" or "Extremely" Satisfied) / (Total Survey Respondents) = (Percentage of Customers Who Are "Very" or "Extremely" Satisfied)
- Satisfaction with Interaction: Indicates customers' average ratings of their satisfaction with an individual service interaction. This is normally determined right after the interaction has occurred. Formula: (Sum of response rates from customers who rate their satisfaction on a 1-5 scale) / (Total Survey Respondents)

- Satisfaction with Services Offered: May provide insight into which products or services are doing well and whether to expand the product offering

3.2. Perspective of internal business process

Organizations usually take self-assessment to understand better their performance [The term integrity is understood in this study as an overall level of performing in terms of work volume, operation results, etc.], to address their strategic issues, and ultimately, to improve their performance.

3.2. a. Internal Business Performance Indicators

- Administration wages/ sales revenue
- Total number of finished orders/ Total number of Orders
- Labour expenses/ production output
- Total processing time of products
- Total time interval form order placing to order deliver
- Material Resources sale/ Material Resources purchase
- Labour Input/ Labour Output
- ROI of MIS
- MIS revenue/ MIS cost
- Total Order Mistakes/ Total Order Delivered
- Number of customer complains
- Administrative wages/ Total Number of Employees

3.3. Financial Perspective

According traditional and modern methods of performance measurement financial performance is a key indicator of a company’s success.

Financial metrics have shortcomings. Financial data are historical and show what happened before, how the company is creating value, but not what is really happening or what will happen in the future. It is important that in the financial performance to be included the risks and cost-benefit of data.

3.3.a. Financial KPIs & Scorecard Measures

Cash flow KPIs

- Working Capital: Working Capital is defined as the total of resources available to be used in order to meet short-term obligations.

- Operating Cash Flow: It is defined as the total value of cash powered by regular business operations.
- Cash Rotation (365/cash cycle): The number of times the cash comes back to the organization for a period of one year.
- Cash Flow from Investing Activities: This indicator evidences cash net change influenced by changes in investing operations or operative net result.
- Cash Flow from Financing Activities: Demonstrates an organization's financial strength.

$$\frac{\text{Cash Received from Issuing Stock or Debt}}{\text{Cash Paid as Dividends and Reacquisition of Debt/Stock}}$$

- Cash Flow: Is defined as the total amount of money being transferred into and out of an organization.

- Cash Conversion Cycle: Demonstrates the amount of time it takes for money invested in the organization to come back to the organization in the form of increased revenue.
- Accounts Receivable Turnover: This rate indicates the velocity with which an organization collects debt. The formula is as following:

$$\frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

- Accounts Receivable: It calculates the amount of money an organization is owed by its customers.
- Accounts Payable Turnover: This is the norm at which the company is solvable confront its suppliers.

$$\frac{\text{Total Supplier Purchases}}{\text{Average Accounts Payable}}$$

- Accounts Payable: Shows the amount of money an organization owes its suppliers.

- Number of Invoices Past Due: Invoices that remain unpaid after their due date.

Cost KPIs

- Total Expenses: Consists of the total costs an organization incurs during a reporting period (including marketing, sales, and operations costs).

- SG&A: The costs of operating an organization—including selling, and general and administrative expenses—are collectively referred to as SG&A.

- Sales Expenses: Costs incurred by the sales department—including salaries and commissions.

- Marketing Expense: Encompasses the total costs incurred by the marketing department, including advertising, salaries, research, and surveys.

- Inventory Turnover: This indicator evaluates the ability to convert inventory into sales.

$$\frac{\text{Sales}}{\text{Inventory}}$$

- Cost Per Unit: The price to produce, store, and sell one unit of a particular product including fixed and variable costs of production. Formula: ([Variable Cost] + [Fixed Cost]) / (Number of Units Produced) = (Cost Per Unit)

- Cost Per Hire: The average cost of hiring a new employee, including advertising fees, employee referrals, travel expenses, relocation expenses, and recruiter costs. Formula: (New Hire Expenses) / (Number of New Hires) = (Cost Per Hire)

- OGS (Cost of Goods Sold): Represents the cost of materials and direct labor used to produce a good.

- Average Annual Expenses to Serve One Customer: This is the average amount needed to serve one customer.

$$\frac{\text{Total Expenses}}{\text{Total Customers}}$$

- Customer Acquisition Cost: The cost to acquire one new customer

- Cost per Click: Measures the cost of a pay-per-click advertising campaign (such as Google Ad Words).

- Percentage of Cost of Workforce: The cost of the workforce as compared to all costs can be measured by summing all salaries and dividing by the total company costs within a given time period. Formula: (Salary Costs) / (Total Company Costs) = (Percentage of Cost of Workforce)

- Healthcare Expense per Current Employee: The total price of health care costs divided out among all employees provides an understanding of the comprehensiveness of a company's health care plan.

Debt KPIs

- Quick Ratio: This indicator is also known as Acid Test. It is the easiest indicator which measures the velocity of one organization to meet short time financial liabilities by its most liquid financial resources.

$$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

- Price-Earnings Ratio (P/E): An equity valuation multiple that compares an organization's share price with per-share earnings.

$$\frac{\text{Market Value Per Share}}{\text{Earnings Per Share}}$$

- Debt Level: The amount of debt that an organization currently has.

- Bad Debt: Debt that is not collectible, and is often written off as an expense.

Investment KPIs

- Saving Levels Due to Improvement Efforts: Many organizations look at investing in improvements, or merging operations (or even companies). This KPI looks at the dollar value of the savings achieved as a result of these investments.

- Return on Innovation Investment: Can be calculated by looking at the revenue from new products, or the number of new products meeting a revenue threshold. This is typically only reviewed by organizations that have created an innovation department or budget.

- Inventory Assets: The cost of merchandise purchased or manufactured, but not yet sold, may be a good leading indicator of preparedness for growth or even slowing growth.

- Innovation Spending: The amount of money that an organization spends on innovation. Some organizations have this budgeted as research and development, and others have different accounting terms. Ultimately, if you use this measure, you are valuing innovation as a key strategic thrust.

- Break Even Time: The time it takes an organization to break even from its investment in a new product or process. If the costs are big up front, this measure can help you understand how long it will take to recoup these expenses.

- # of Key Capital Investments that Meet or Exceed ROI Expectations: Can be based on the plan for investments, or on the results of past investments. Useful for organizations that invest in many capital projects

Profitability KPIs

- Sales Growth: The change in an organization's sales from one reporting period to another. Formula: ([Current Sales] - [Past Sales]) / (Past Sales) = (Sales Growth)

- ROI (Return on Investment): It is the most used indicator which shows how efficient is any form of investment.

$$\frac{\text{Gain from Investment}}{\text{Cost of Investment}}$$

- ROE (Return on Equity): The amount of net income an organization generates compared to the amount of shareholders' equity. Formula: (Net Income) / (Shareholders' Equity) = (ROE)

- ROA (Return on Assets):Indicates how profitable an organization is relative to its total assets. Formula: (Net Income) / (Total Assets) = (ROA)

- Return on Capital Employed: Measures an organization's profitability and the efficiency with which its capital is employed.

- Program Profitability: Tracks the profitability of an individual program.

- Operating Profit Margin: Measures income after variable costs of production is considered. Formula: (Operating Income) / (Net Sales) = (Operating Profit Margin)

- Net Profit Margin: It is simply the ratio of profit toward its incomes.

- Net Profit: Is the result if we subtract operative expenses form gross profit.
  Formula: (Income) - (Expenses) = (Net Profit)

- Gross Profit Margin: The percentage of revenue that is profit after the cost of production and sales is considered. Formula: (Gross Margin) / (Revenue) = (Gross Profit Margin)

- Gross Profit: An organization's profit after the cost of production and sales is considered. Formula: (Revenue) - (COGS) = (Gross Profit)

- Economic Value Added (EVA):An estimate of an organization's economic profit.

- Customer Lifetime Value: The net profit an organization anticipates gaining from a customer over the entire length of a relationship helps to determine the costs/benefits of acquisition efforts.

- Customer Lifetime Value/ Customer Acquisition Cost: This ratio should ideally be greater than one, as a customer is not profitable if the cost to acquire is greater than the profit they will bring to a company. Formula: (Net Expected Lifetime Profit from Customer) / (Cost to Acquire Customer)

- Human Capital Value Added (HCVA): This indicator evaluates how profitable the average worker in an organization is. Formula: ([Revenue] - [Non-Employee-Related Costs]) / (Number of Full-Time Employees) = (HCVA)

Revenue KPIs

- Sales Volume: The amount of sales in a reporting period, expressed in the number of units sold.

- Sales Forecast Accuracy: The proximity of the forecasted quantity of sales to the actual quantity of sales.

- ROI of R&D: The revenue generated by investing money into research and development.

- Revenue per FTE (Full time employee): Demonstrates how expensive an organization is to run. Formula: (Revenue) / (Number of FTE) = (Revenue per FTE)

- Revenue Growth Rate: The rate at which an organization's income is increasing. Formula: ([Current Revenue] - [Past Revenue]) / (Past Revenue) = (Revenue Growth Rate)

- Revenue: The total income an organization receives. Formula: (Price of Goods) x (Number of Goods Sold) = (Revenue)

- Operating Income: The profit from operations after removing operating expenses.

- Net Income: The amount of sales after subtracting discounts, returns, and damaged goods. Formula: (Revenue) - (Expenses) = (Net Income)

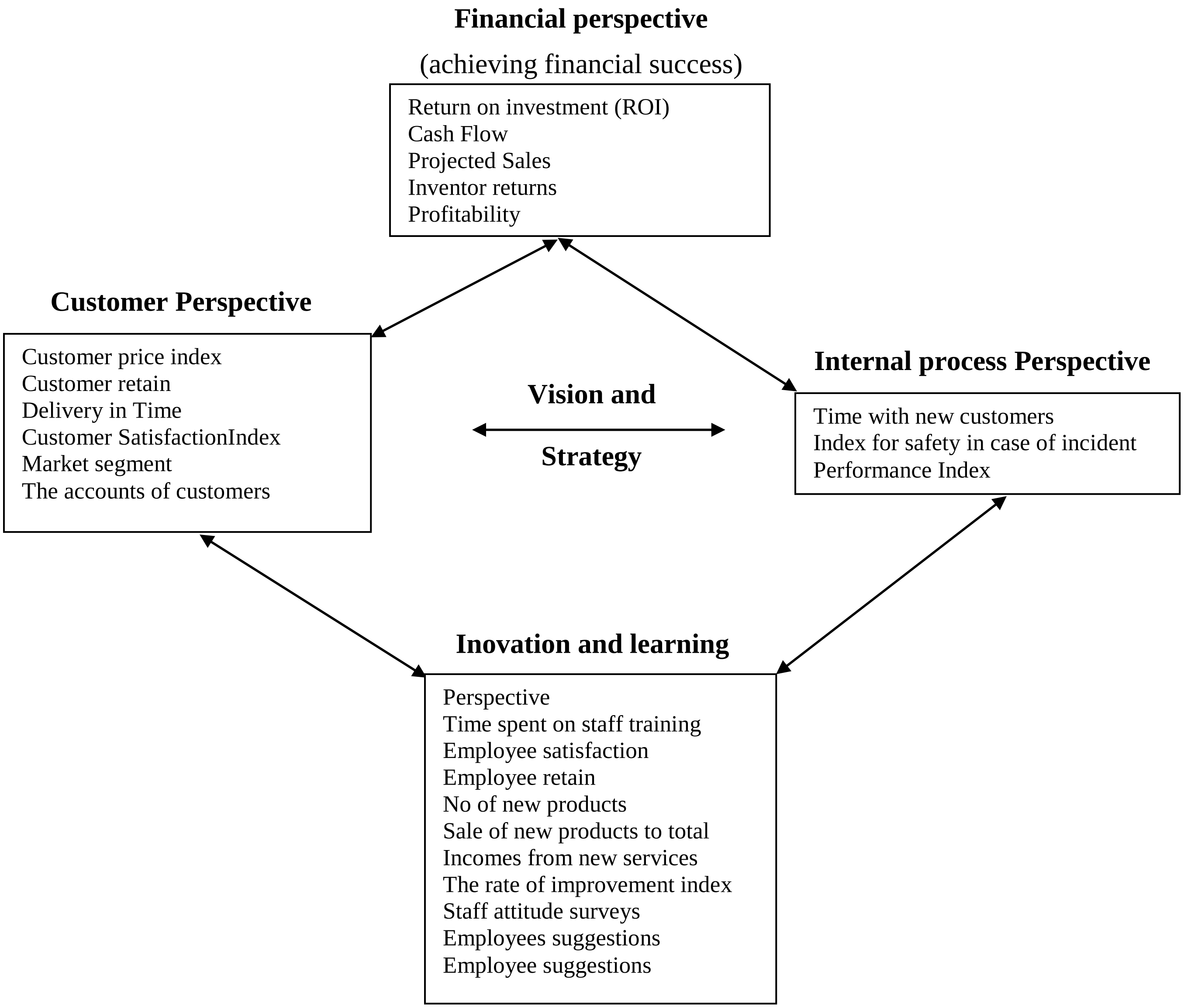
- EBT (Earnings Before Taxes): Shows how much an organization has made after considering COGS, interest, and SG&A expenses, before taxes are subtracted. Formula: (Revenue) - (COGS) - (Interest) - (SG&A) = (EBT)

- Average Annual Sales Volume Per Customer: This is the average amount of sales per customer, expressed in currency. Formula: (Total Sales) / (Total Customers) = (Average Annual Sales Volume per Customer)

- Asset Utilization: Total revenue earned for every dollar of assets an organization owns. Formula: (Total Revenue) / (Total Assets) = (Asset Utilization)

- Share of Wallet: Measures the portion of a customer's total spending that goes toward the company's products and services.
- EBIT: An indicator of a company's profitability with expenses removed and interest and tax excluded. Formula: (Revenue) - (COGS) - (Operating Expenses) = (EBIT)

Graphical presentation of Balance Scorecard



CHAPTER IV: PERFORMANCE MEASUREMENT CASE IN TWO COMPANIES FROM FOOTWEAR INDUSTRY

4.1. Introduction

Based on the above explanations, we will analyze “Balance Scorecard” for two companies dealing with shoe parts sewing and shoe production.

Historically Albania had an important place in the world’s leather processing and show producing industry. This industry was developed in many regions of the country, including the sewing and final assembly of the shoes.

From 1930 until 1950, the shoe industry was not developed, but performed mainly through individual manufacturers or traders, who worked upon tradition and decided the price of the article produced. Taking into consideration that the number of these manufacturers was small and the quantity produced could not supply the entire market, usually the merchandise was sold directly from producer to consumers without the need of intermediaries.

From 1960 until 1990, this sector was still mainly prevailed by small manufacturers and traders who operated under surveillance of communist government, but at the same time with slow rhythm small state enterprises were built, in the form of factories. These factories had small capability of production and small number of employees varying from 3 to 15 people. The range of products was widened and at that time, it was able to fulfill the national supply, but also a small percentage of products started to be exported.

After the 90’s, these enterprises went through a privatization phase. The shoe production industry increased during the 1999-2001 reaching 10% of all industries, such being one of the most important economy sectors. The so-called upper shoes (the leather upper part of the shoe) are the major part of these exports, more precisely 55% of them. In 99% of the cases, Italy is their destination. From 2000-2005 the Albanian exports of shoe industry have been doubled.

This industry apart from being one of the most important sectors of Albanian economy is one of the most competitive in Europe too. In 2010, the export from clothing and show industry were on the top of the list of exports. The trend is increasing with 20-30% yearly. There are almost 100 companies operating in the market, producing 1.2 million pair of shoes per month. Albania is the second biggest exporting country in Italy. Furthermore, the locals consume 22.5% of total production and foreigners consume 58.75% of it.

In this difficult moment for the global economy, it is wise for Albania to examine her competitive advantages, and on that basis to be able to build a middle and long-term strategy. Shoe manufacturing industry is the most successful industries in Albania and the industry can turn to an engine of national development if properly managed. Advantages offered by the Albanian market for investors in this field are numerous; some of them will be mentioned next.

Foreign investors in Albania are increasing the export to markets beyond Europe. Thanks to the free trade agreement signed with the Balkan countries and the European Union, Albania offers free export opportunities within the region.

Albania has a population of about 3.2 million inhabitants and a high unemployment rate of 15%, with 20,000 employees and more than 12,000 professionals working in the shoe processing industry. The growing number of students in our country and the absence of trade unions provide numerous opportunities hiring work force with the wage set by investors.

The cost of labor in the manufacturing sector of footwear and façon service is 150 $ -200 $ per month per employee, approximately 1/10 of that in Italy and 1/5 of that in Greece. Wages in Albania are less than 1/3 of wages in European countries. Work force is stable and reliable, with over 50% of employees working over 5 years in these factories.

Costs per employee, per month ALL

Managers	110,000
Professionals	62,000
Technicians	50,000
Production line employees	15 000-20,000

Another advantage in this sector is the timely distribution of orders because of the favourable geographical position, so exports could reach their destination in a few days. It is worth mentioning the high level of production quality, certified with ISO 9001. Companies are implementing new technologies of production, tailored to appeal to the European markets. In addition, other operating costs are low. At the same time the cost of electricity or water is lower than in EU countries. Another advantage for companies operating in Albania is the easiness to open a business in our country. Government policies attract foreign investment by offering speed to legal procedures for establishing the company.

Albania is an attractive place to manufacture and export of leather or shoe due to security of export imports. This sector has all the manufacturing capabilities in accordance with the requirements of EU standard directives and Balkan markets and provides leather processing; clothing manufacturing service, and can produce leather accessories for export.

Benefits from investment in the footwear sector and façon sector in general:

- Albania has the lowest cost of production and raw materials.
- The existence of a liberal regime for foreign investment, which treats foreign investors like domestic producers. According to the World Bank launch procedures for the establishment of a company in Albania takes less than half that in the EU.
- An increase in the market a) Agreements of free trade with countries in the region b) Albania as a member of WTO (World Trade Organization) benefits the facilities c) has signed agreement economic and trade relations with EFTA (European Free Trade Association) and the EU by insuring access to these markets.
- Macroeconomic stability
- Companies have provided healthy environments where the business can be run and investors can operate safely and successfully. Stable Rates and low inflation are an indicator of economic stability. So investors may see it as a reliable place to invest. Albania represents a good investment opportunity and is a country that gives higher benefits in the footwear- leather sector.

4.2. Case Study Methodology

Dr. Kaplan and Norton have studied several ways of applying the BALANCED SCORECARD in different types of organizations, and have concluded that a framework with 20-25 indicators is highly recommended. Small organizations can use less measuring, and according to best practice in the case of very large companies are recommended not more than 25 indicators to measure performance.

For this Case Study, we focused our investigation in two Albanian companies, dealing in the shoes production. With the purpose that our finding would represent the general approach in regards to business performance appraisal in Albania, we selected two of the biggest companies in Albania.

The sample (company) would characterize:

- Albanian mentality of doing business
- Ethnic and cultural characteristics (including Managers and employees)
- Demographic features
- Company growth
- Company turnover and market share
- Successful Vision and Mission

One of the most important advantages of case study methodology is the fact that it allows in depth knowledge and investigation of a certain object of study. In order to properly explain performance measurement in our two chosen businesses we will address a full set of vital questions, including: "what", "how" and “why".

By referring to our initial research questions, we will have:

How do these companies measure performance? Do financial indicators prevalent compared to other non-financial indicators?

At the beginning, we will explain why we chose this sector to measure the performance, through examining two major points. The first point is examining the history and tradition of Albania in this industry sector, and the second we will explain why leather processing is important for Albania and its future. After that, we will measure the performance according to Balance Scorecard method.

A structured interview was conducted to employees in both firms. The attempt was that the interviewed from both companies represent employees in important managerial positions.

The structured interview included the following questions: (1) which is the spectrum of using several performance indicators? (2) Do you have a well-defined and planed performance measurement system? (3) What are the concrete measurement indicators that you implement in this case in order to measure performance? (4) Do you have MIS in order to sustain and support performance measuring system?

The study is focused on the largest footwear companies which account for 50% of the product of this industry in Albania. The interviewed are employees who work closely with performance measurement on a daily basis. Respondents, beside the figures, were asked to evaluate on a five point scale the level to which their information system supported eleven specific PMS (Performance Measure System) reporting factors.

A perfect BALANCED SCORECARD would be presented by the following scheme:

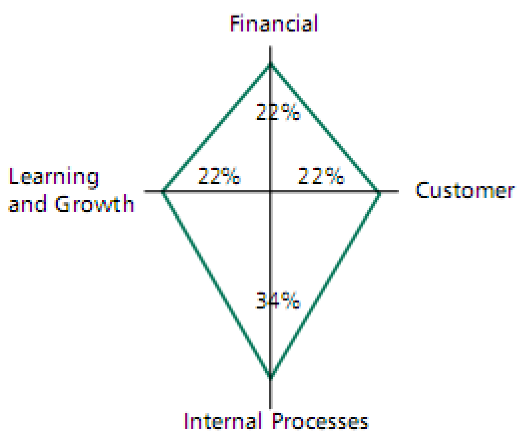


Figure 2: Example an "Ideal" Balanced Scorecard

Perspective	#of Metrics	Weight
Financial	5	22%
Customer	5	22%
Learning and Innovation	5	22%
Internal Processes	9	34%
	24 measures	100%

Source: Norton, David. 2000. Beware: The Unbalanced Scorecard.

For practical purposes in our study on performance measurement in the shoe industry we have chosen company A and B (to maintain the confidentiality of the data, the firm under consideration is called Company A and B), which can be considered two of the largest operating in the sector façon processing and shoe manufacturing in Albania. The Companies operate in the footwear for everyday use at an average price, having a variety of models for men and women. This market segment is the segment with the highest volume of sales.

Company A has about 1,500 workers, produces 6,000 pairs of shoes a day and has a turnover of 30 million Euros.

Company B has about 165 workers, produces 500 pairs of shoes a day and has a turnover of 17 million Euros.

We approached the management team of the companies in two stages:

1. *Preliminary meeting:* Presenting the aim of the case reporting, and trying to gather information about performance appraisal system. In this stage, we tried also to identify what of indicators we might use to evaluate the BSC system of this company; which of the indicators listed would be applicable
2. *Interview:* In this stage, after we selected applicable indicators, as shown in table 1, we interviewed the managing team, in a focus group meeting. As it may be understood, indicators known and applied by the management team, are too much less compared with the indicators and sub-indicators mostly used for this purpose

Based on best practice study by Kaplan and Norton, in our study we have tried to keep the reports suggested in the ideal model but we selected a smaller number of indicators, if we look from the corporate perspective Dr. Kaplan and Norton refer in their study.

Table 1. **Indicators taken into consideration for Company A BSC**

Financial	Customer Perspective
1. Cash Flow KPIs	1. Life Cycle KPIs
2. Cost KPIs	2. Numbers & Rates KPIs
3. Revenue KPIs (Increase of sales)	3. Satisfaction KPIs
4. Investment KPIs	
5. Profitability KPIs (Return on equity (ROE)	

Indicators of internal process	**Learning and innovation**
1. Automation Process	1. Number of new products
2.No of products returning for repair	2. Employee Suggestions
3. Highlights narrow repair process	3. Expenses for research and innovation
4. The circulation of workers	

4.3 Results

4.3.1 COMPANY A

4.3.1.1 Vision and Mission

Mission of company A

Mission of the company is “The flexibility of the production unit to enable meeting the customers' requirements in a very short time providing them with customized products at very competitive prices”.

Vision of company

Organization, technological innovation, research & development and quality control with an accurate selection of the best quality materials are the key points of our factory and the best convincing arguments supporting our marketing strategy at national and international level.

FINANCIAL PERFORMANCE MEASUREMENT

4.3.2. Return on equity ROE

ROE is the amount of net income an organization generates compared to the amount of shareholders’ equity. *[Formula: (Net Income) / (Shareholders’ Equity) = (ROE)]*

The Company has its own capital of 4,000,000 Euros and 800,000 Euros net profit. Return on equity is 20%. While in 2013, ROE was at 15%. Seeing this indicator and comparing it to the industry that is <15%, we can say that the ROE indicator is very good for the company in 2014 and has grown satisfactorily in comparison with 2013.

Anyhow, ROE is one of the sub-indicators of Profitability, and the managers do not consider other sub-indicators that influence Profitability, like Return on investment, return on assets, etc.

This fits with the theory of Kaplan, that managers wants to look good in front of shareholders, neglecting other figures and activities that characterize and long term.

4.3.3. Cash Flow

Cash Flow is the total amount of money being transferred into and out of an organization.

From the examination of the statement of cash flow, the company is found to have a negative cash flow of EUR 700,000. The negative cash flow is due to the delay in the collection of revenues from clients and the requirement that the company in order to buy raw materials is generally required to prepay.

We understood after the interview, that the Cash flow and ROE, together with the Increase of sales, were the three main pillars that the managing team were mainly focusing their daily activities, because even their system of managers and employees stimulation was based on these features.

	2009	2010	2011	2012	2013	Average
Current ratio	27.274224	17.204448	22.470301	17.449533	27.274224	21.099627
Cash Flow Ratio	***1.52451841***	***1.6977178***	***0.3355714***	***0.0645418***	***1.52451841***	0.9055874
Acid Test	27.274224	17.204448	22.470301	17.449533	27.274224	21.099627
Critical needs of Cash Coverage	***1.76499211***	***1.874946***	***0.5789882***	***0.2268164***	***1.76499211***	1.1114357
Interest Coverage	1.57414518	1.733197	9.4133229	7.7902322	1.57414518	4.2611258
Interest Cash Coverage	***6.15328823***	***10.188852***	***3.7142609***	***2.0693306***	***6.15328823***	5.5314329

Current ratio - Has been increasing in the last three years, this means that the company is improving this indicator by increasing Long Run Assets ability to repay Short Run Assets.

Cash Flow Ratio – It has been increasing in the first 3 years of the study and further underwent a slight decline. It is important for the firm to increase this indicator as soon as possible to speed up the velocity of cash flow.

Critical needs of Cash Coverage – This indicator has been fluctuation, but in 3 from 4 years it had a higher value than one. This it means that the company is performing relatively well for cash coverage.

Critical needs of Cash Coverage **-** Firstly, its value data is less than 1 and the secondly it has been falling from year to year and its value is very fluctuating. This means that the firm is not operating properly and is at risk of repayment of interest when required.

Interest Cash Coverage **-** This indicator has been also deteriorating. This is problematic because it has not generated enough cash to cover the interest.

Conclusion - By all cash flow performance the company is operating well within quick ratio and current and cash flow terms. Both interest coverage ratios are problematic and must be the focus of the company if it will improve its liquidation ability.

4.3.4 Increase of sales

In 2014 the company had a 30 million euro sales in value and in 2013 there were 22 million euro sale value. So as it can be seen sales have increased at the rate of 27%. These indicators are historical; they show what happened but do not show how the company is actually performing.

CUSTOMER PERSPECTIVE

5. Delivery time of order

Customers are demanding the implementation of the deadline set to delivery order. The company keeps this indicator under constant surveillance in order as Customer Satisfaction is so directly dependent on this factor. The shortest delivery is one of the competitive advantages that the Albanian companies compared to their competitors in the Asian countries. So we can say that the performance of the filing date of the Order is good.

6. Quality

Producing within the deadline is just one of the factors, which make a company competitive. In company A presentation, not unintentionally was mentioned that it competes in a market with average price. To be competitive in the market a company must maintain an appropriate quality/price ratio. It is worth noting that consumers are pushing towards quality nowadays more than 10 years ago. In order to keep customers satisfied, it is essential to produce within certain qualitative parameters. However, this indicator, as understood out from the interview, was more related with the ordering customer, than the mentality of the organization. Otherwise, they would not pay company.

The company that we are analyzing has a strict quality control of its products, for the simple reason that customers cannot accept the products that are under the standard specified in the contract. The return of the products would increase twice transportation costs, therefore the production cost would increase, and at the same time may lead to increased customer dissatisfaction. To minimize these problems, quality controllers are established in several key production processes that approve the transfer of the product to the next stage. For quality, we can say that Company A, produces average quality products because this is the expectation of its customers.

INDICATORS OF INTERNAL PROCESS

7. Process automation

Whenever it comes to evaluating a production process, the first indicator that comes to mind is the level of automation of the process. The company that we consider has automated 70% of the production processes and 30% of processes are performed manually. Given the low level of wages and specificity of shoe production, this level of automation can be considered acceptable.

8. The number of products returned for repair

An internal measuring the performance of the company is the number of products that come from quality control for repair. Moreover, this indicator is the main indicator of effectiveness of the business for this company. Production supervisors strictly observe and control the production, so that this feature is in lowest level.

The company keeps evidence of daily examinations for the products to be repaired. The norm percentage of products that need repair for minor flaws is between 2 to 3 percent. This rate is usually higher when introduced a new model in production line, and is decreased with the gaining of experience. It can be considered that the company does not perform well in this indicator but it can be justified by the variety of products produced. The company ensures that this rate does not exceed 4%, and in case it does, it analyzes the reasons why this number is exceeded.

9. Highlighted process parts

Narrow point in the shoe manufacturing process is cutting the leather. Department of leather cutting is tight spot because this unit has a limited number of processing machinery and the amount depends on the number of machines. If a defect undergoes in the machinery and lowers the amount of pairs cut, this gap may be reflected in all other departments such as the leather sewing etc. The company has only one point which can be considered as a narrow point but this obstacle can pass since the readiness of employees to work overtime is high and labor cost is low.

10. Turnover of workers

Characteristic of this industry is the high turnover of workers, thus the company that we have taken into consideration is affected by this problem. In this company's staff turnover is about 3% per month. In many other countries such a high turnover percentage would be a point of weakness but in Albania, where unemployment is very high and there are over 20 thousand workers working for several years in the production of footwear makes this factor so far no decisive. The opinion of some managers who work in this industry is that in a 2-3 years period with the increasing demands of workers and salary increases, staff turnover in Albania may become a concern.

LEARNING AND INNOVATION

11. Number of new products

Given that the company under consideration deals with the manufacture of footwear, the product it produces is the shoe, so a single product, but in different types or models. This company has a variety of modern models for the product that produces and these models are ordered by customers. But the innovation and new products designs are given ready to the producer. Company expenses for research and development almost do not exist

12. Employee suggestions

Given the enormous cultural differences between management and employees and the fact that workers have no incentive if they bring new product ideas, suggestions of workers are almost nonexistent. Contact of staff with high level managers is too low, or in some cases their only contact is only moment of signing the contract, there are no suggestions of employees. Employees are much less involved with their ideas, whether in direction, design or even to give input about consumer preferences. So employees are simply a mechanical part of the production process, contributing only with their physical performance and not ideas.

4.3.4 COMPANY B

4.2.2.1 Vision and Mission

Mission of company B

The use of "Game Theory" to further reduce prices by custom manufacturing contracts in the country.

History of performance of company B

Firm “B“ has started in Tirana as a limited liability company in 1998. The form of organization is an Albanian-Italian joint venture. The firm is subcontractor of an Italian company that works with clients in regards of the Italian fashion industry. It produces collections for coming mode seasons. The structure of financial resources in the start-up phase was composed by 100% with self-capital. Currently the company employs 165 employees, of which 3% is executive administration and the rest deal directly with production.

FINANCIAL PERFORMANCE MEASUREMENT

4.3.5 Return on equity ROE

ROE is the amount of net income an organization generates compared to the amount of shareholders' equity.

Company B has its own capital of 8,700,000 Euros and 450,000 Euros net profit. Return on equity is 5.1%. While in 2013 ROE was at 7.2%. Seeing this indicator evolution, we can say that the ROE indicator has deterring from year to year and need addressing.

4.3.6 Cash Flow

Cash Flow is the total amount of money being transferred into and out of an organization.

From the examination of the statement of cash flow, the company is found to have a cash flow total amount, which is sufficient to meet firm urgent financial obligations.

Some of the indicators of cash flow performance are presented in the table below

	2009	2010	2011	2012	2013	Average
Current ratio	17.	7.2	12.4	7.4	7.9	11.5
Cash Flow Ratio	***1.1***	***1.4***	***0.9***	***0.7***	***1.1***	0.8
Acid Test	19.35	19.5	21	19	22.3	19.8
Critical needs of Cash Coverage	***1.5***	***1.6***	***1.8***	***0.3***	***0.8***	1.3
Interest Coverage	1.6	1.7	3.5	5.6	2.9	4.6
Interest Cash Coverage	***6.3***	***11.8***	***5.9***	***2.9***	***5.4***	6.1

Current ratio - Has been increasing in the last three years, this means that the company is improving this indicator by increasing Long Run Assets ability to repay Short Run Assets. But are lower values compared with A company.

Cash Flow Ratio – It has been increasing but it is very volatile. This is a negative performance indicator. It is important for the firm to increase this indicator as soon as possible to speed up the velocity of cash flow.

Critical needs of Cash Coverage – This indicator has been relatively stable compared with A company, but in 3 from 4 years it had a higher value than one. This it means that the company is performing relatively well for cash coverage.

Critical needs of Cash Coverage **–** In average the firm is operating above value of 1. This means that the firm is relatively operating properly and is the risk of repayment of interest when required is relatively small.

Interest Cash Coverage - This indicator has been also deteriorating. This is problematic because it has not generated enough cash to cover the interest. Levels of Interest Cash Coverage are very fluctuating.

Conclusion - By all cash flow performance the company is operating not very well and instability indicators are manifesting.
Both interest coverage ratios are problematic and must be the focus of the company if it will improve its liquidation ability.
Cash performance is evaluated as weak.

Increase of sales

In 2014 the company had a 11 million euro sales in value and in 2013 there were 14 million euro sale value. So as it can be seen sales have increased at the rate of 27%. These indicators are historical; they show what happened but do not show how the company is actually performing.

CUSTOMER PERSPECTIVE

Delivery time of order and quality

The firm considers important factors in their success: 1) quality and safety regulations delivery time; 2) specialization in only one product; 3) family management activity; 4) the consent of third parties to cover the short run demand (orders).

Given the above it is understandable that Quality and delivery time of orders are key components of overall company strategy.

During the period 1998-2014 this company has manufactured orders for a single client and has increased produced the amount. Unlike other companies in the industry, this firm has used another strategy for realization of the ordered quantity. As may be understandable delivery in time and meeting quality standards is crucial for the total existence of the company.

Its most important dimensions of performance are: delivery time of order and meeting quality standards.

In order to achieve those two performance objectives the firm has managed to keep constant the level of full time workers and in peak time of operations it fulfill demand by subcontracting third-party with short-term contracts.

Measuring and insuring that production will meet the required performance standards is difficult for this firm, because sometimes it subcontract several processes in third parties. When management was asked how they encompass this difficulty in measuring the performance of their subcontractors, their response was:

"*It is true that subcontracting has enabled us to deliver on time big volume orders, but it is a risky strategy as well. Now it is not a problem, because we have our established collaborators but it was a problem in beginning when we were obliged to analyze several potential subcontractors in order to properly choose. In the initial phases of our collaborations we didn't required that our subcontractor deliver the processed and finished order to our business. We use to go to the factories of the subcontractor and control for order quality before accepting. As for the time deliver measuring performance we conducted a market analysis to check the history of the subcontractor and evaluate impropriate precedents."*

INDICATORS OF INTERNAL PROCESS

Process automation

The above strategy of subcontracting workers in peak demand periods has served for cost reduction and efficient use of financial resources in improving manufacturing technology and the future opening subsidiary in another city. B company has automated 60% of the production processes and 40% of processes are performed manually. Given the low level of wages, this level of automation can be considered acceptable. However, given the fact that company has 97% of its employees are directly engaged in production, it should consider the alternative of increasing the level of automation.

The number of products returned for repair

The tolerance accepted from the only customer of the company is 5%. This is a very high performance standard and the company managers recall many situations where workers complained for better first row materials and more available time to manufacture the required orders. Given the above, the number of products returned for repair is a risky component of performance measurement indicator that needs revision.

Turnover of workers

Given the long period in market, company B has achieved a normal distribution of workforce. Workers are male and female, the level of education varies and workers are from 15 to 65 years old. Firms have an average level of wage approximately near of minimum wage. The philosophy of management is that management should calculate workers number based on an average cost of working day. This has created much dissatisfaction among workers and has increased turnover rate of workers.

The company is trying to lower this rate by engaging workers in trainings. These trainings last form 1-3 months. A part of the employees in this industry is from urban surroundings in difficult economic conditions and low skills. The lack of workers shows the need for skilled training of employees in specific work processes. Many companies do not offer conditions more work best for employees and the government should to seek improved working environments and increased safety and to monitor them. This will contribute to further lowering turnover rate of workers.

LEARNING AND INNOVATION

Number of new products

Given that the company under consideration deals with the manufacture of footwear, the product it produces is the shoe, so a single product, but in different types or models. The company changes its models according orders from it only client to adapt to future mode seasons.

New products are a continuous strategy for Italian client; therefore, form B Company is expected to perform in flexibility with new request in different fashion seasons.

Employee suggestions

The employees are composed mainly from direct production workers and a small part from administrative employees. This structure is difficult to manage in terms of learning and innovation. Therefore, the suggestions are derived mainly from the Italian client.

Besides that, Albanian managers suggest new ways to lower cost and increase process efficiency.

Greater source for learning and innovation of this company is collaboration with foreign firms, by gaining experience in terms of R & D

4.3.7 COMPANY A AND B COMPARISION

From a comparison of Performance, measuring System of both firms taken into consideration it can be concluded that there exist the above similarities:

- Forms of financing of companies are by their own resources which create a fluctuation in financial performance.
- Firms invest in improving manufacture technology. Investing in technology is a requirement for improving work productivity and products quality.
- One of the weaknesses in firm performance is human resource management. Low training, irrelevant financial and moral stimulation has decreased internal processes performance.

4.4 Discussion

In this paper, we analyzed the performance measurement practice of management system focusing on Balance Scorecard. For the companies it is important to be aware of how other companies perform and possibly to change their way of measuring performance using Balance Scorecard method. In the analyzed case, managing team of the company does not take suggestions from employees simply because of their position and this may result in resentment among employees at all levels.

The difficulty in applying this method lies in determining the strategy and different objectives, and to determine the cause and consequences of any indicator that serves to measure performance. Given that, the calculation of measurement of perspective is not a simple procedure; the company do not use this performance evaluation. In many other situations, company executives have no knowledge of these evaluators. In other situations the concern is only for the financial evaluators, they are not paying attention to the non-financial ones.

The most important aspects that managing team focuses are:

1. Creating contacts and getting contracts with as much as possible with other ordering consumers
2. Keeping the cost and the return of goods produced as low as they can; the second feature according to them would lead to the low cost, and this finally will enhance and increase the ROE.
3. Indirectly, they apply the ABC, and this application affects mostly the staff circulation.

We can say that performance measurement is vital to the performance of companies and to the achievement of long-term objectives. Performance measurement helps managers to control timely how the business strategy is being implemented, which is the most successful sector and which encounters problems; and it gives managers the ability to timely modify business processes or short-term objectives in order to achieve long-term objectives.

The companies that have been studied in this paper, occasionally, implements performance measurement, for the global market in which they operate is highly competitive, and other countries like Indonesia or China have a much cheaper labor cost.

Return on equity of 20% is above the industry average in Albania, and is relatively high for companies operating in this sector in the world, so financially we have a very positive indicator. Sales index also shows a good performance of the company for the period studied. A high sales growth of 27% in a moment that the world economy is in decline is an indicator of the good work the company has made in years.

A point where the companies seem weak is negative Cash Flow. If we study only financial indicators this situation may seem paradoxical, but if we look at the combined non-financial indicators, we understand that negative Cash Flow comes from long term the company has left during 2013 for the customers to pay. In addition, one of the main customers of Company A is in financial difficulties but the client's obligations do not jeopardize the company's position. Cash Flow Indicator gives a signal that management should be careful and should review the policies of collection of receivables.

In the non-financial indicators, it is worth noting that the companies meet the requirements of the clients timely, helped by an appropriate geographic location. Given that companies are well known for quality products and an average price, they have a convenient quality-price ratio and have gained a good position in the market. The companies give importance to relations with employees and regularly check the indicators of staff turnover and the products returned for repair. Management analyzes the turnover when it reaches 3.5-4% in the month and when the level of defective products returned for repair reaches 4%. These indicators are linked to the dissatisfaction of employees and although the company can easily replace staff, it is concerned about the long-term performance.

Therefore, we can say that the company analyzed relies mostly on measurements of financial indicators, and non-financial indicators partially checked in regards to its performance. This makes this companies successful in a short term meaning (especially for shareholders aspect of view), even in the international market, but since they do not regularly apply a system for matching vision, mission, goals of the company, long term success will be not assured.

What the future has in store? Balance Scorecard as a performance and strategy measurement is supposed to be one of the most important gauges of future performance. The role of management and business culture in the coming years will be important in successful implementation of the Balance Scorecard, its adaptation, as well as performance measurement of the companies.

Albanian companies that quickly adapt to modern ways of management and control will be competitive and successful, both in Albania and abroad.

CHAPTER V: CONCLUSIONS

The necessity of using the BALANCED SCORECARD to measure the performance of companies is closely linked with the benefits from its application. It is theoretically proved that the question "How my daily work contributes to achieving the company's goal?" becomes easier to give an answer through the BALANCED SCORECARD. Benefits from the use of BALANCED SCORECARD may look as follows:

Promotes the growth- Its focus is to meet the long-term goals rather than short-term profit.

The performance of the company- Individual and collective results can be placed in the opposite direction of the company with the aim to achieve improvements and corrections.

Provides focus- Indicators can be an important line of strategies and provide what is important to it.

Extending goals- Performance indicators are supporting each other to achieve what is important for the organization.

BALANCED SCORECARD is a tool to achieve the company's long-term goals and companies should develop their own objectives, indicators and targets. Objectives can be seen as measurable results and this is what companies want to reach. Performance indicators help it to achieve the objectives set.

The biggest limitation of this method is that it promotes multiple targets. A theory that revolves around multiple targets with equal weight would create confusion at the time of decision-making. Given that the objectives have an equal weight makes it difficult the decision making process, because each perspective has a certain weight that influences decision-making. Other criticism about the balance scorecard is the difficulty in balancing the financial indicator with non-financial ones. The whole process is not considered successful if the balance is not achieved.

Like any other measurement of performance, BALANCED SCORECARD will lead to conflicts, confusion, incompetence and lack of focus. This balance can translate the company's strategy in specific measurable objectives. Failure of a new structure of improved performance leads to the meeting of the executive to take new decisions.

CHAPTER VI: RECCOMENDATIONS

1. Application of Balance Scorecard, using as much as possible indicators from the list of standard indicators, prepared by Kaplan and improved by other authors, has to be a key activity in the daily work of managers

2. Management team must develop dedicated scorecards for different departments of the organization, so they can build up the surveillance system for the overall business growth and success

3. Balance scorecard should be interpreted in the context of the four perspectives, with the final aim the sustained growth of the company in regards to finances, market share, ethics and met of the organization vision and mission

4. Planning and creating strategies, in short and long term, based on four perspectives of the BSC

5. BSC has to be not the only system for performance assessment. It has to be analyzed related with other methods like ABC, EVA, etc

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